United States General Accounting Office

GAO

Report to the Secretary of the Treasury

February 2002

FINANCIAL AUDIT

Bureau of the Public Debt's Fiscal Years 2001 and 2000 Schedules of Federal Debt

GAO

Accountability * Integrity * Reliability

GAO-02-354

Report Documentation Page

Report Date	Report Type	Dates Covered (from... to)
00FEB2002	N/A	-

Title and Subtitle FINANCIAL AUDIT: Bureau of the Public Debts Fiscal Years 2001 and 2000 Schedules of Federal Debt	**Contract Number**
	Grant Number
	Program Element Number
Author(s)	**Project Number**
	Task Number
	Work Unit Number
Performing Organization Name(s) and Address(es) U.S. General Accounting Office P.O. Box 37050 Washington, D.C. 20013	**Performing Organization Report Number** GAO-02-354
Sponsoring/Monitoring Agency Name(s) and Address(es)	**Sponsor/Monitor's Acronym(s)**
	Sponsor/Monitor's Report Number(s)

Distribution/Availability Statement
Approved for public release, distribution unlimited

Supplementary Notes

Abstract
The accompanying auditors report presents the results of our audits of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2001 and 2000. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by the bureau.1

Subject Terms

Report Classification unclassified	**Classification of this page** unclassified
Classification of Abstract unclassified	**Limitation of Abstract** SAR

Number of Pages
34

Contents

Abbreviations

BPD	Bureau of the Public Debt
OMB	Office of Management and Budget

Comptroller General
of the United States

United States General Accounting Office
Washington, D.C. 20548

February 15, 2002

The Honorable Paul H. O'Neill
The Secretary of the Treasury

Dear Mr. Secretary:

The accompanying auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2001 and 2000. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by the bureau.[1]

The auditor's report contains our (1) opinion on the Schedules of Federal Debt for the fiscal years ended September 30, 2001 and 2000, (2) opinion on the effectiveness of related internal control as of September 30, 2001, (3) conclusion on the bureau's compliance in fiscal year 2001 with a selected provision of a significant law we tested, and (4) conclusion on the consistency between information in the Schedules of Federal Debt and the Overview on Federal Debt Managed by the Bureau of the Public Debt.

As of September 30, 2001 and 2000, federal debt managed by the bureau totaled about $5,792 billion and $5,659 billion, respectively, for moneys borrowed to fund the government's operations. As shown on the Schedules of Federal Debt, these balances consisted of approximately (1) $3,339 billion as of September 30, 2001, and $3,439 billion as of September 30, 2000, of debt held by the public and about (2) $2,453 billion as of September 30, 2001, and $2,220 billion as of September 30, 2000, of intragovernmental debt holdings.

The level of debt held by the public reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of total federal revenues. It best represents the cumulative effect of past federal borrowing on today's economy and the federal budget. When a cash surplus occurs, the annual excess funds are

[1] Intragovernmental Debt Holdings represent federal debt issued by Treasury and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

then used to reduce debt held by the public. In other words, cash deficits or surpluses generally approximate the annual net change in the amount of government borrowing from the public.

Cash surpluses over the past 4 years have enabled Treasury to reduce debt held by the public. Treasury has reduced this debt by redeeming maturing debt, reducing the number of auctions and size of new debt issues, conducting "buybacks" of debt before its maturity date, and redeeming callable securities when the opportunities arose.[2] The effect of these actions is that debt held by the public and managed by the Bureau of the Public Debt has been reduced by approximately $476 billion since September 30, 1997, with about $100 billion of this decrease occurring in fiscal year 2001. Debt held by the public as a percentage of total federal debt has decreased from approximately 71 percent as of September 30, 1997, to approximately 58 percent as of September 30, 2001.

Notwithstanding the reduction in debt held by the public, total federal debt increased by approximately $133 billion during fiscal year 2001, because of the increase in intragovernmental debt holdings. Intragovernmental debt holdings represent balances of Treasury securities held by individual funds, primarily federal trust funds, that typically have an obligation to invest their excess annual receipts over disbursements in federal securities. Most federal trust funds invest in special U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. government. These securities are nonmarketable; however, they represent a priority call on future budgetary resources. Certain of these trust funds, such as the Social Security and federal civilian employee and military retirement trust funds, have been running cash surpluses, which are loaned to the Treasury and reduce the current need for the government to borrow from the public. Primarily as a result of such trust fund surpluses, intragovernmental debt holdings have increased by approximately $870 billion since September 30, 1997, with about $233 billion of this increase occurring in fiscal year 2001. Intragovernmental debt holdings as a percentage of total federal debt have increased from approximately 29 percent as of September 30, 1997, to approximately 42 percent as of September 30, 2001.

[2]During this period, Treasury eliminated the 3-year note and the 52-week bill. On October 31, 2001, Treasury suspended issuance of the 30-year bond.

The transactions relating to the use of the funds' surpluses net out on the government's consolidated financial statements because, in effect, they represent loans from one part of the government to another. Importantly, these intragovernmental debt holdings also constitute future obligations of the Treasury since the Treasury must provide cash to redeem these securities in order for the funds to pay their benefits or other obligations as they come due. When this occurs, if sufficient cash surpluses are not available to redeem the securities, the government would either need to increase borrowing from the public, raise future taxes, reduce future spending, retire less debt (if the budget as a whole is in surplus), or some combination thereof.

While both are important, debt held by the public and intragovernmental debt holdings are very different. Debt held by the public approximates the federal government's competition with other sectors in the credit markets. Federal borrowing absorbs funds available for private investment and may put upward pressure on interest rates. In addition, interest on debt held by the public is paid in cash and represents a burden on current taxpayers. It reflects the amount the government pays to its outside creditors. In contrast, intragovernmental debt holdings perform an accounting function but typically do not require cash payments from the current budget or represent a burden on the current economy. In addition, from the perspective of the budget as a whole, interest payments to the individual funds by the Treasury are entirely offset by the income received by such funds—in effect, one part of the government pays the interest and another part receives it. This intragovernmental debt and the interest on it represents a claim on future resources and hence a burden on future taxpayers and the future economy. However, these intragovernmental debt holdings may not fully reflect the government's total future commitment to trust fund financed programs. They primarily represent the cumulative cash surpluses of those trust funds and also reflect future priority claims on the U.S. Treasury. They do not have the current economic effects of borrowing from the public and do not currently compete with the private sector for available funds in the credit markets. However, when trust funds redeem Treasury securities to obtain cash to fund expenditures, and Treasury borrows from the public to finance these redemptions, there is competition with the private sector and thus an effect on the economy.

After 4 years of cash surpluses, debt held by the public as a percentage of the annual size of the U.S. economy has decreased from 43 percent as of September 30, 1998, to 33 percent as of September 30, 2001. However, these levels are still relatively high by historical standards, as the United

States rarely exceeded such levels before 1932. In addition, the combination of federal spending for the international war on terrorism and homeland security efforts, recent tax policy decisions, and the deterioration in overall economic performance is likely to eliminate near-term budget surpluses, reduce medium-range projected surpluses, and exacerbate our long-range fiscal challenge. As a result, the financial landscape has now changed from projected surpluses, once thought to possibly lead to a dramatic reduction in or elimination of debt held by the public, to projected near-term deficits and an accelerated need to increase the current $5,950 billion statutory debt limit.

Over the longer term, the retirement of the baby boom generation will place significant pressures on the federal budget. The expected growth in Social Security spending in combination with the even faster expected growth in Medicare and Medicaid spending is a major challenge. Absent any changes in the structure of Social Security and Medicare, such growth would leave very little room for any other federal spending priorities in future decades. Ultimately, restoring our long-term fiscal flexibility and preventing debt held by the public from rising again will involve reforming existing federal entitlement programs and promoting the saving and investment necessary for robust long-term economic growth.

We are sending copies of this report to the chairmen and ranking minority members of the Senate Committee on Appropriations; the Senate Committee on Governmental Affairs; the Senate Committee on the Budget; the Subcommittee on Treasury and General Government, Senate Committee on Appropriations; the House Committee on Appropriations; the House Committee on Government Reform; the House Committee on the Budget; the Subcommittee on Treasury, Postal Service, and General Government, House Committee on Appropriations; and the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, House Committee on Government Reform. We are also sending copies of this report to the commissioner of the Bureau of the Public Debt, the inspector general of the Department of the Treasury, the director of the Office of Management and Budget, and other agency officials. Copies will be made available to others upon request.

If I can be of further assistance, please call me at (202) 512-5500. This report was prepared under the direction of Gary T. Engel, Director, Financial Management and Assurance. Should you or members of your staff have any questions concerning this report, please contact Mr. Engel at

(202) 512-3406. Another key contact and staff acknowledgments are provided in appendix II.

Sincerely yours,

David M. Walker
Comptroller General
of the United States

Comptroller General
of the United States

United States General Accounting Office
Washington, D.C. 20548

To the Commissioner of the Bureau of the Public Debt

In connection with fulfilling our requirement to audit the financial statements of the U.S. government, we audited the Schedules of Federal Debt Managed by the Bureau of the Public Debt (BPD) because of the significance of the federal debt to the federal government's financial statements.[3]

This auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by BPD for the fiscal years ended September 30, 2001 and 2000. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Debt Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Premiums and Discounts managed by BPD.[4]

In our audits of the Schedules of Federal Debt for the fiscal years ended September 30, 2001 and 2000, we found the following:

- the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- BPD had effective internal control over financial reporting and compliance with laws and regulations related to the Schedule of Federal Debt for the fiscal year ended September 30, 2001; and
- no reportable noncompliance in fiscal year 2001 with a selected provision of a law we tested.

The following sections discuss, in more detail, (1) these conclusions and our conclusion on the Overview on Federal Debt Managed by the Bureau of the Public Debt and (2) the scope of our audits.

Opinion on Schedules of Federal Debt

The Schedules of Federal Debt including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the balances as of September 30, 2001, 2000, and

[3] 31 U.S.C. 331(e) (1994).

[4] Intragovernmental Debt Holdings represent federal debt issued by Treasury and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

1999, for Federal Debt Managed by BPD; the related Accrued Interest Payables and Net Unamortized Premiums and Discounts; and the related increases and decreases for the fiscal years ended September 30, 2001 and 2000.

Opinion on Internal Control

BPD maintained, in all material respects, effective internal control relevant to the Schedule of Federal Debt related to financial reporting and compliance with applicable laws and regulations as of September 30, 2001. The internal control provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the Schedule of Federal Debt for the fiscal year ended September 30, 2001, would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512(c), (d) (commonly referred to as the Federal Managers' Financial Integrity Act) and the Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control.*

We found matters involving computer controls that we do not consider to be reportable conditions.[5] We will communicate these matters to BPD's management, along with our recommendations for improvement, in a separate letter to be issued at a later date.

Compliance with Laws and Regulations

Our tests for compliance in fiscal year 2001 with the Statutory Debt Limit, 31 U.S.C. 3101(b), as amended, disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit of the Schedule of Federal Debt for the fiscal year ended September 30, 2001, was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

[5]Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to meet the internal control objectives described in the Objectives, Scope, and Methodology section of this report.

Consistency of Other Information

BPD's Overview on Federal Debt Managed by the Bureau of the Public Debt contains information, some of which is not directly related to the Schedules of Federal Debt. We do not express an opinion on this information. However, we compared this information for consistency with the schedules and discussed the methods of measurement and presentation with BPD officials. Based on this limited work, we found no material inconsistencies with the schedules.

Objectives, Scope, and Methodology

Management is responsible for the following:

- preparing the Schedules of Federal Debt in conformity with U.S. generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) management maintained effective related internal control as of September 30, 2001, the objectives of which are the following.

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule of Federal Debt for the fiscal year ended September 30, 2001, in conformity with U.S. generally accepted accounting principles.
- Compliance with laws and regulations: Transactions related to the Schedule of Federal Debt for the fiscal year ended September 30, 2001, are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Schedule of Federal Debt and any other laws, regulations, and governmentwide policies identified by OMB audit guidance.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt. Further, we are responsible for performing limited procedures with respect to certain other information appearing with the Schedules of Federal Debt.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Federal Debt;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Schedules of Federal Debt;
- obtained an understanding of internal control relevant to the Schedule of Federal Debt for the fiscal year ended September 30, 2001, related to financial reporting and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control related to the Schedule of Federal Debt for the fiscal year ended September 30, 2001;
- considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and
- tested compliance in fiscal year 2001 with the Statutory Debt Limit, 31 U.S.C. 3101(b), as amended.

We did not evaluate all internal controls relevant to operating objectives as broadly described by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to BPD. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and applicable OMB audit guidance.

Agency Comments

In commenting on a draft of this report, BPD concurred with the facts and conclusions in our report. The comments are reprinted in appendix I.

David M. Walker
Comptroller General
of the United States

January 23, 2002

Overview, Schedules, and Notes

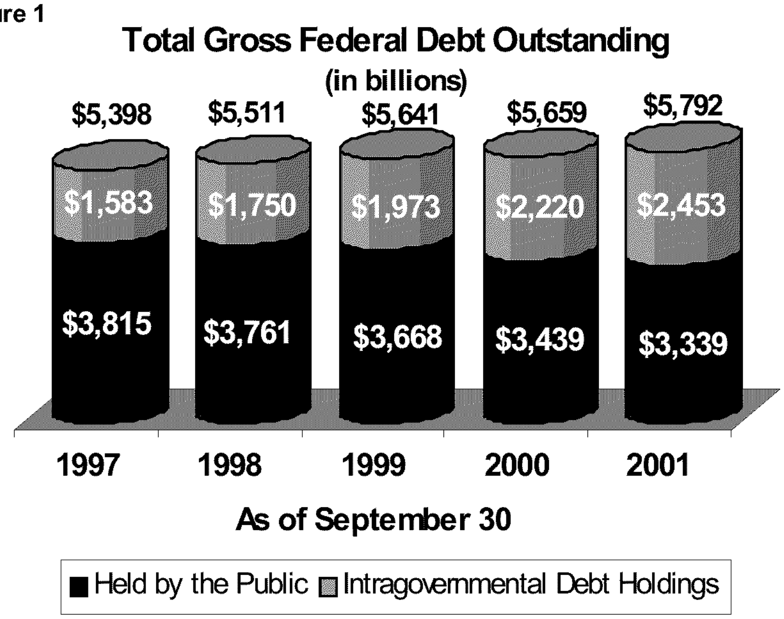
Overview on Federal Debt Managed by the Bureau of the Public Debt

Overview on Federal Debt Managed by the Bureau of the Public Debt

Gross Federal Debt Outstanding[1]

Federal debt managed by the Bureau of the Public Debt comprises debt held by the public and debt held by certain federal government accounts, the latter of which is referred to as intragovernmental debt holdings. As of September 30, 2001 and 2000, outstanding gross federal debt managed by the bureau totaled $5,792 and $5,659 billion, respectively. The increase in gross federal debt of $133 billion during fiscal year 2001 was due to an increase in gross intragovernmental debt holdings of $233 billion that exceeded a decrease in gross debt held by the public of $100 billion. As Figure 1 illustrates, intragovernmental debt holdings have steadily increased while debt held by the public has decreased. The primary reason for the increases in intragovernmental debt holdings is the annual cash surpluses in the Federal Old-Age and Survivors Insurance, Federal Disability Insurance, Military Retirement, and Civil Service Retirement and Disability trust funds. The decreases in debt held by the public are due primarily to total federal revenues exceeding total federal spending. As of September 30, 2001, gross debt held by the public totaled $3,339 billion and gross intragovernmental debt holdings totaled $2,453 billion.

Figure 1

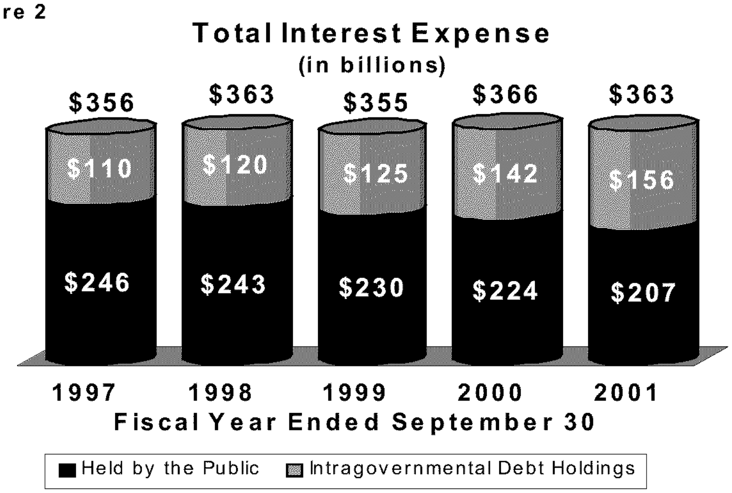


[1] Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by the bureau and which are issued by the Federal Financing Bank and other federal government agencies.

Interest Expense

Interest expense incurred during fiscal year 2001 consists of (1) interest accrued and paid on debt held by the public or credited to accounts holding intragovernmental debt during fiscal year 2001, (2) interest accrued during the fiscal year, but not yet paid on debt held by the public or credited to accounts holding intragovernmental debt, and (3) net amortization of premiums and discounts. The primary components of interest expense are interest paid on the debt held by the public and interest credited to federal government trust funds and other federal government accounts that hold Treasury securities. The interest paid on the debt held by the public affects the current spending of the federal government and represents the burden in servicing its debt (i.e., payments to outside creditors). Interest credited to federal government trust funds and other federal government accounts, on the other hand, does not result in an immediate outlay of the federal government because one part of the government pays the interest and another part receives it. However, this interest represents a claim on future resources and hence an obligation on future taxpayers. This interest, when reinvested by the trust funds and other federal government accounts, is included in the programs' excess funds not currently needed in operations, which are invested in federal securities. During fiscal year 2001, interest expense incurred totaled $363 billion, interest expense on debt held by the public was $207 billion, and $156 billion was interest incurred for intragovernmental debt holdings. Figure 2 shows total interest expense incurred during fiscal years 1997 through 2001. Average interest rates on principal balances outstanding as of fiscal year end are disclosed in the Notes to the Schedules of Federal Debt. Average interest rates on Treasury bills decreased from 6.2 percent as of September 30, 2000, to 3.5 percent as of September 30, 2001. This decrease was primarily due to the reduction of the federal funds rate during the fiscal year.

Figure 2



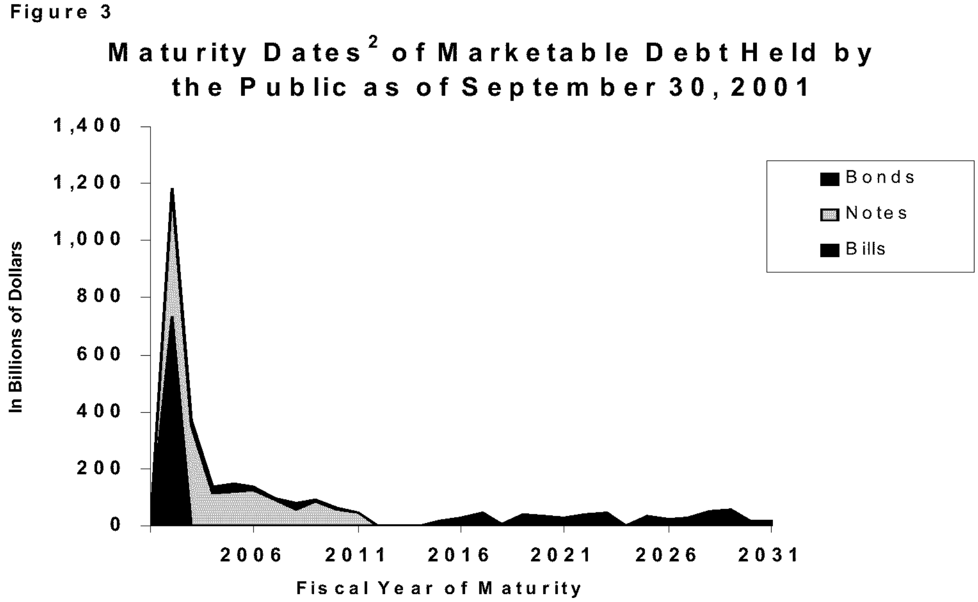
Debt Held by the Public

Debt held by the public reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of total federal revenues. As of September 30, 2001 and 2000, gross debt held by the public totaled $3,339 billion and $3,439 billion, respectively (see Figure 1), a decrease of $100 billion. Although the total gross debt held by the public decreased, the borrowings and the repayments of debt held by the public increased from fiscal year 2000 to 2001. This was partly due to Treasury's decision to finance current operations using more short-term securities.

As of September 30, 2001, $2,915 billion, or 87 percent, of the securities that constitute debt held by the public were marketable, meaning that once the government issues them, they can be resold by whoever owns them. Marketable debt is made up of Treasury bills, notes, and bonds with maturity dates ranging from less than 1 year out to 30 years. Of the marketable securities currently held by the public as of September 30, 2001, $1,843 billion or 64 percent will mature within the next 4 years (see Figure 3).

The government also issues to the public, state and local governments, and foreign governments and central banks nonmarketable securities, which cannot be resold, and have maturity dates from on demand to more than 10 years. As of September 30, 2001, nonmarketable securities totaled $424 billion, or 13 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of savings securities totaling $187 billion and special securities for state and local governments totaling $146 billion.

Figure 3



[2] Callable securities mature between 2007 and 2014, but are reported by their call date, 5 years earlier – this explains the gap in the figure.

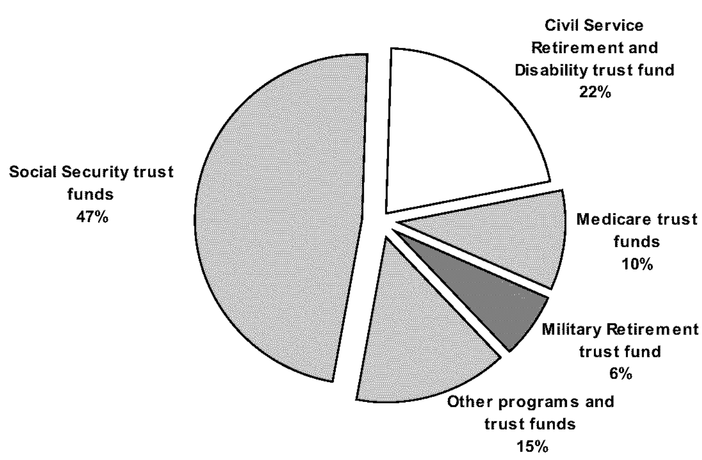
Intragovernmental Debt Holdings

Intragovernmental debt holdings represent balances of Treasury securities held by 218 individual funds with either the authority or the requirement to invest excess receipts in special U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. Government. Intragovernmental debt holdings primarily consist of balances in the Social Security, Medicare, Military Retirement, and Civil Service Retirement and Disability trust funds.[3] As of September 30, 2001, such funds accounted for $2,094 billion, or 85 percent, of the $2,453 billion intragovernmental debt holdings balances (see Figure 4). As of September 30, 2001 and 2000, gross intragovernmental debt holdings totaled $2,453 billion and $2,220 billion, respectively (see Figure 1), an increase of $233 billion.

The majority of intragovernmental debt holdings are Government Account Series (GAS) securities. GAS securities consist of par value securities and market-based securities, with terms ranging from on demand out to 30 years. Par value securities are issued and redeemed at par (100 percent of the face value), regardless of current market conditions. Market-based securities, however, can be issued at a premium or discount and are redeemed at par value on the maturity date or at market value if redeemed before the maturity date.

Figure 4

Components of Intragovernmental Debt Holdings as of September 30, 2001



[3] The Social Security trust funds consist of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund. In addition, the Medicare trust funds are made up of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.

Events in FY 2001

4-Week Bills Introduced

To help smooth seasonal fluctuations in Treasury's cash balances and reduce reliance on cash management bills, Treasury began issuing 4-week bills. These new bills will allow greater flexibility in managing Treasury's cash needs and improve the cost-efficiency of its short-term financing. The 4-week bill is in addition to regular weekly auctions of 13- and 26-week bills. The first auction for the 4-week bill was held on July 31, 2001. For fiscal year 2001, Treasury issued $104 billion in 4-week bills. The average monthly issue was $52 billion. These securities are issued as reopenings of outstanding 13- and 26-week bills.

52-Week Bills Eliminated

To increase the liquidity of the 13- and 26-week bills in response to the overall reduction in Treasury's borrowing needs, Treasury has eliminated the 52-week bill. The Treasury Borrowing Advisory Committee stated that this bill provides the least utility to the Treasury and the market compared to other regular offerings. In addition, it noted that the elimination of the 52-week bill would be less disruptive to the Treasury's monthly cash flows than other alternatives. As a result of this elimination, Treasury only issued $25 billion in 52-week bills in fiscal year 2001 compared to $120 billion in fiscal year 2000. This change eliminated roughly $95 billion in debt issuance for 52-week bills, but it was re-allocated to other bill sectors. The last issue date for 52-week bills was March 1, 2001.

Historical Perspective

Federal debt outstanding is the largest legally binding obligation of the federal government. Nearly all the federal debt has been issued by the Treasury with a small portion being issued by other federal government agencies. Treasury issues debt securities for two principal reasons, (1) to borrow needed funds to finance the current operations of the federal government and (2) to provide an investment mechanism for certain federal government accounts' excess receipts, primarily trust funds.

Total gross federal debt outstanding has dramatically increased over the past 25 years from $635 billion as of September 30, 1976 to $5,792 billion as of September 30, 2001 (see Figure 5). During the 1970's, large budget deficits emerged as the economy was disrupted by oil crises and inflation. Until a few years ago, annual federal deficits continued to be large and debt continued to grow at a rapid pace. As a result, total federal debt increased nearly five fold since 1980. However, by the late 1990's, federal debt held by the public was beginning to decline. In fiscal years 1998 through 2001, the amount of debt held by the public fell by $476 billion. Despite the decline in federal debt held by the public, total federal debt increased over this same period because of increases in intragovernmental debt holdings of $870 billion. By law, trust funds have the authority or are required to invest surpluses in federal securities. As a result, the intragovernmental debt holdings balances primarily represent the cumulative surplus of funds due to the trust funds' cumulative annual excess of tax receipts, interest credited, and other collections compared to spending. As shown in Figure 6, interest rates have fluctuated over the past 25 years. The highest interest rates occurred from the early 1980's through the early 1990's, periods when the federal deficits grew substantially.

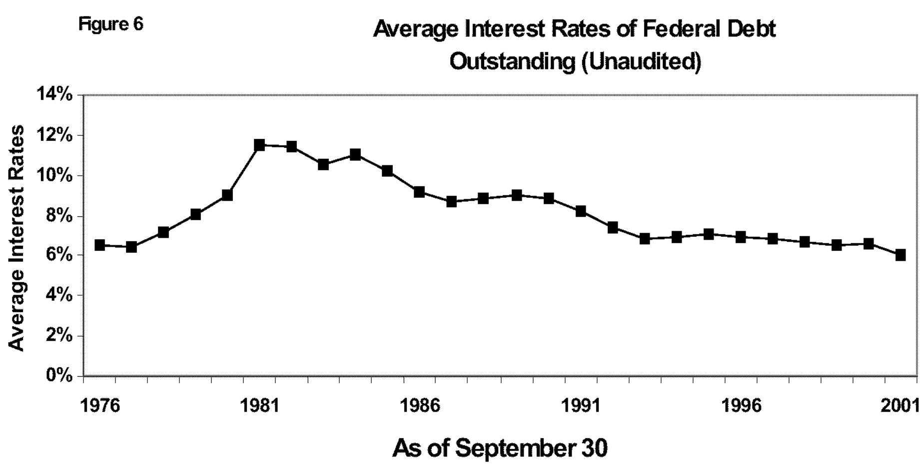
Historical Perspective, cont.

Figure 5

Source: Monthly Statement of Public Debt

Figures shown prior to 1996 are unaudited and include securities issued by the Federal Financing Bank.

Figure 6



Source: Monthly Statement of Public Debt

Recent Changes in the Fiscal Outlook

As a consequence of the changes in the government's financing needs, resulting in part from the effects of the weakening economy and the increased federal outlays that have occurred in the wake of the attacks of September 11th, Treasury took the following steps that would affect future gross federal debt balances and activities.

On October 31, 2001, Treasury determined that the 30-year bond was no longer necessary to meet the government's current and expected financing needs. As a result, it announced the cancellation of the auction of 30-year securities scheduled in February 2002 and noted that no further auctions of the 30-year bond are planned. Further, Treasury also announced that the debt buyback program will be adjusted consistent with the ebb and flow of Treasury's cash position. As a result, there will likely be periods in which Treasury does not conduct buyback operations.

Finally, on December 11, 2001, Treasury requested that the statutory debt ceiling be raised to $6,700 billion. This was in response to the Administration's initial projection that the current debt ceiling, $5,950 billion, was going to be reached by February 2002. As of January 31, 2002, the debt ceiling remains at $5,950 billion.

Schedules of Federal Debt

Schedules of Federal Debt
Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions)

	Federal Debt					
	Held by the Public			Intragovernmental Debt Holdings		
	Principal (Note 2)	Accrued Interest Payable	Net Unamortized Premiums/ (Discounts)	Principal (Note 3)	Accrued Interest Payable	Net Unamortized Premiums/ (Discounts)
Balance as of September 30, 1999	$3,668,380	$42,588	($62,796)	$1,972,891	$32,788	($1,599)
Increases						
Borrowings from the Public	2,042,955		(32,121)			
Net Increase in Intragovernmental Debt Holdings				247,264		(3,597)
Accrued Interest (Note 4)		186,007			140,917	
Total Increases	2,042,955	186,007	(32,121)	247,264	140,917	(3,597)
Decreases						
Repayments of Debt Held by the Public	2,272,312					
Interest Paid		184,374			136,453	
Net Amortization (Note 4)			(38,767)			(866)
Total Decreases	2,272,312	184,374	(38,767)	0	136,453	(866)
Balance as of September 30, 2000	3,439,023	44,221	(56,150)	2,220,155	37,252	(4,330)
Increases						
Borrowings from the Public	2,556,481		(25,904)			
Net Increase in Intragovernmental Debt Holdings				232,998		(4,624)
Accrued Interest (Note 4)		171,034			153,072	
Total Increases	2,556,481	171,034	(25,904)	232,998	153,072	(4,624)
Decreases						
Repayments of Debt Held by the Public	2,656,194					
Interest Paid		175,759			150,338	
Net Amortization (Note 4)			(36,044)			(2,784)
Total Decreases	2,656,194	175,759	(36,044)	0	150,338	(2,784)
Balance as of September 30, 2001	$3,339,310	$39,496	($46,010)	$2,453,153	$39,986	($6,170)

The accompanying notes are an integral part of these schedules.

Notes to the Schedules of Federal Debt

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2001 and 2000

(Dollars in Millions)

Note 1. Significant Accounting Policies

Basis of Presentation

The Schedules of Federal Debt Managed by the Bureau of the Public Debt (BPD) have been prepared to report fiscal year 2001 and 2000 balances and activity relating to monies borrowed from the public and certain federal government accounts to fund the U.S. government's operations. All fiscal year end balances reported on the Schedules of Federal Debt are not covered by budgetary resources.

Reporting Entity

The Constitution empowers Congress to borrow money on the credit of the United States. Congress has authorized the Secretary of the Treasury to borrow monies to operate the federal government within a statutory debt limit. Title 31 U.S.C. authorizes Treasury to prescribe the debt instruments and otherwise limit and restrict the amount and composition of the debt. BPD, an organizational entity within the Fiscal Service of the Department of the Treasury, is responsible for issuing Treasury securities in accordance with such authority and to account for the resulting debt. In addition, BPD has been given the responsibility to issue Treasury securities to trust funds for trust fund receipts not needed for current benefits and expenses. BPD issues and redeems Treasury securities for the trust funds based on data provided by program agencies and other Treasury entities.

Basis of Accounting

The schedules were prepared in conformity with U.S. generally accepted accounting principles and from BPD's automated accounting system, Public Debt Accounting and Reporting System. Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using the interest method for zero-coupon bonds and the straight line method, which is not materially different from the interest method, for the other securities. The Department of the Treasury also issues inflation-indexed securities. Inflation-indexed securities accrue principal over the life of the security based on the Consumer Price Index for all Urban Consumers. For marketable securities bought back prior to maturity through competitive redemption processes, the difference between the reacquisition price and the net carrying value of the extinguished debt is recognized as a gain or loss in the period of extinguishment.

Budgetary Authority

Permanent, indefinite appropriations are available for the payment of interest on the federal debt, the redemption of Treasury securities, and the loss on marketable securities bought back prior to maturity through competitive redemption processes.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2001 and 2000

(Dollars in Millions)

Note 2. Federal Debt Held by the Public

As of September 30, 2001 and 2000, Federal Debt Held by the Public consisted of the following:

	2001		2000	
	Amount	Average Interest Rates	Amount	Average Interest Rates
Marketable:				
Treasury Bills	$734,856	3.5%	$616,174	6.2%
Treasury Notes	1,528,095	5.8%	1,724,263	5.8%
Treasury Bonds	652,274	8.0%	668,229	8.2%
Total Marketable	$2,915,225		$3,008,666	
Nonmarketable	$424,085	6.3%	$430,357	6.5%
Total Federal Debt Held by the Public	$3,339,310		$3,439,023	

Treasury issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on a Treasury bill represents the average effective yield on the security. Treasury bills are issued with a term of 1 year or less.

Treasury issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium. Treasury notes are issued with a term of 2 – 10 years and Treasury bonds are issued with a term of more than 10 years. As of September 30, 2001, Treasury marketable notes included $95,147 million of inflation-indexed notes and Treasury marketable bonds included $39,744 million of inflation-indexed bonds. As of September 30, 2000, Treasury marketable notes included $81,597 million of inflation-indexed notes and Treasury marketable bonds included $33,391 million of inflation-indexed bonds.

As of September 30, 2001, nonmarketable securities primarily consisted of $186,509 million in U.S. Savings Securities, $146,364 million in securities issued to State and Local Governments, $18,269 million in Foreign Series Securities, and $29,995 million in Domestic Series Securities. As of September 30, 2000, nonmarketable securities primarily consisted of $184,449 million in U.S. Savings Securities, $153,288 million in securities issued to State and Local Governments, $25,431 million in Foreign Series Securities, and $29,996 million in Domestic Series Securities. Treasury issues nonmarketable securities at either par value or at an amount that reflects a discount or a premium. The average interest rate on the nonmarketable securities represents the weighted effective yield. Nonmarketable securities are issued with a term of on demand to more than 10 years.

Government Account Series (GAS) securities are nonmarketable securities issued to federal government accounts. Federal Debt Held by the Public includes GAS securities issued to certain federal government accounts. One example is the GAS securities held by the Thrift Savings Fund. Federal employees and retirees who have individual

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2001 and 2000

(Dollars in Millions)

Note 2. Federal Debt Held by the Public (continued)

accounts own the GAS securities held by the fund. For this reason, these securities are considered part of the Federal Debt Held by the Public rather than Intragovernmental Debt Holdings. The GAS securities held by the Thrift Savings Fund consist of overnight investments redeemed one business day after their issue. The net increase in amounts borrowed from the fund during fiscal years 2001 and 2000 are included in the respective Borrowings from the Public amounts reported on the Schedules of Federal Debt.

Federal Debt Held by the Public includes federal debt held outside of the U. S. government by individuals, corporations, Federal Reserve Banks (FRB), state and local governments, and foreign governments and central banks. The FRB owned $558 billion and $527 billion of Federal Debt Held by the Public as of September 30, 2001 and 2000, respectively. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

Fiscal years-ended September 30, 2001 and 2000, occurred on a Sunday and Saturday, respectively. As a result, $33,316 million and $31,280 million of marketable Treasury notes matured but not repaid is included in the balance of the total Federal Debt Held by the Public as of September 30, 2001 and 2000, respectively. Settlement of these debt repayments occurred on Monday, October 1, 2001 for fiscal year 2001 and Monday, October 2, 2000 for fiscal year 2000.

Note 3. Intragovernmental Debt Holdings

As of September 30, 2001 and 2000, Intragovernmental Debt Holdings are owed to the following:

		2001	2000
SSA:	Federal Old-Age and Survivors Insurance Trust Fund	$1,034,113	$893,519
OPM:	Civil Service Retirement and Disability Fund	527,608 *	496,986 *
HHS:	Federal Hospital Insurance Trust Fund	197,137	168,859
DOD:	Military Retirement Fund	156,978	149,348
SSA:	Federal Disability Insurance Trust Fund	135,842 *	113,707 *
DOL:	Unemployment Trust Fund	88,638	86,399
HHS:	Federal Supplementary Medical Insurance Trust Fund	41,978	45,075
FDIC:	The Bank Insurance Fund	30,677	29,326
RRB:	Railroad Retirement Account	24,983	22,628
DOT:	Highway Trust Fund	24,115	31,023
OPM:	Employees' Life Insurance Fund	23,690	22,372
DOE:	Nuclear Waste Disposal Fund	21,060	17,550
HUD:	FHA – Liquidating Account	17,282	17,260
DOT:	Airport & Airway Trust Fund	13,660	13,097
VA:	National Service Life Insurance Fund	11,639	11,804
DOL:	Pension Benefit Guaranty Corporation Fund	11,575	10,500
DOS:	Foreign Service Retirement & Disability Fund	11,192	10,658
FDIC:	Savings Association Insurance Fund (SAIF)	10,654	10,747
Treasury:	Exchange Stabilization Fund	10,014	11,029
Other Programs and Funds		60,318	58,268
Total Intragovernmental Debt Holdings		$2,453,153	$2,220,155

These amounts include marketable Treasury securities as well as GAS securities as follows:

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2001 and 2000

(Dollars in Millions)

Note 3. Intragovernmental Debt Holdings (continued)

	GAS Securities	Marketable Treasury Securities	Total
As of September 30, 2001:			
Civil Service Retirement and Disability Fund	$527,189	$419	$527,608
Federal Disability Insurance Trust Fund	135,802	40	135,842
As of September 30, 2000:			
Civil Service Retirement and Disability Fund	$496,567	$419	$496,986
Federal Disability Insurance Trust Fund	113,667	40	113,707

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Health and Human Services (HHS); Department of Defense (DOD); Department of Labor (DOL); Federal Deposit Insurance Corporation (FDIC); Railroad Retirement Board (RRB); Department of Transportation (DOT); Department of Energy (DOE); Department of Housing and Urban Development (HUD); Department of Veterans Affairs (VA); Department of State (DOS); Department of the Treasury (Treasury).

Intragovernmental Debt Holdings primarily consist of GAS securities. Treasury issues GAS securities at either par value or at an amount that reflects a discount or a premium. The average interest rates for fiscal years 2001 and 2000 were 6.4 percent and 6.7 percent, respectively. GAS securities are issued with a term of on demand to 30 years.

Fiscal years-ended September 30, 2001 and 2000, occurred on a Sunday and Saturday, respectively. As a result, $1,457 million and $10,975 million of GAS securities matured but not repaid is included in the balance of the Intragovernmental Debt Holdings as of September 30, 2001 and 2000, respectively. Settlement of these debt repayments occurred on Monday, October 1, 2001 for fiscal year 2001 and Monday, October 2, 2000 for fiscal year 2000.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions)

Note 4. Interest Expense

Interest expense on Federal Debt Managed by BPD for fiscal years 2001 and 2000 consisted of the following:

	2001	2000
Federal Debt Held by the Public		
Accrued Interest	$171,034	$186,007
Net Amortization of Premiums and Discounts	35,934 *	38,705 *
Total Interest Expense on Federal Debt Held by the Public	206,968	224,712
Intragovernmental Debt Holdings		
Accrued Interest	153,072	140,917
Net Amortization of Premiums and Discounts	2,784	866
Total Interest Expense on Intragovernmental Debt Holdings	155,856	141,783
Total Interest Expense on Federal Debt Managed by BPD	$362,824	$366,495

*Amount shown here differs from the net amortization amount on the Schedules of Federal Debt as of September 30, 2001 and 2000 due to $110 million and $62 million, respectively, of net unamortized premiums and discounts written off relating to the marketable securities bought back prior to maturity through competitive redemption processes. (See note 6 for additional information on debt buybacks.)

Note 5. Fund Balance With Treasury

	As of September 30, 2001	As of September 30, 2000
Appropriated Funds Obligated	$168	$175

The Fund Balance with Treasury (FBWT), a non-entity, intragovernmental account, is not included on the Schedules of Federal Debt and is presented for informational purposes.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions)

Note 6. Debt Buybacks

As a result of four years of budget surpluses, Treasury's need to borrow from the public declined over the past several years. In fiscal year 2000, Treasury decided to buy back certain unmatured marketable securities, referred to as debt buybacks. Debt buybacks are competitive redemption processes by which Treasury accepts offers to redeem particular marketable Treasury securities prior to their maturity dates. Once the securities have been redeemed from investors, they are removed from the total Treasury securities outstanding.

On January 19, 2000, the Department of the Treasury issued a final rule adding part 375 to 31 CFR, setting out the terms and conditions by which outstanding, unmatured marketable Treasury securities may be redeemed through Treasury buying back the securities. This authority to buy back securities enables Treasury to better manage financing needs, promote more efficient capital markets, and may lower financing costs for taxpayers. The first of these "buybacks" occurred on March 9, 2000. The premium paid represents the amount of money paid above par value to buy back securities. During fiscal years 2001 and 2000, there were 23 and 13 buyback operations, respectively, which involved the following:

	2001	2000
Total Amount Paid for Debt Buybacks, excluding Accrued Interest	$44,357	$26,708
Principal Amount of Debt Buybacks	33,752	21,251
Premium Paid on Debt Buybacks	$10,605	$5,457
Write Off of Net Unamortized Discounts on Debt Buybacks	110	62
Loss on Debt Buybacks	$10,715	$5,519

Comments from the Bureau of the Public Debt

DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
WASHINGTON, DC 20239-0001

February 12, 2002

Mr. Gary T. Engel
Director
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Engel:

This letter is our response to your audit of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2001, and 2000. We agree with your audit report's conclusions.

I would like to thank you and your staff for conducting a thorough audit of these schedules. We appreciate the professionalism and dedication of your audit team. Your team's experience with our accounting operations and our experience with your expectations continue to make each audit process more efficient and less burdensome. As you are probably aware, our Secretary has challenged us to meet a November 15, 2002, audit completion date for FY2002, two years ahead of the Office of Management and Budget requirement. I would like to take this opportunity to enlist your support in our effort to meet this challenge in the coming year. As always, we look forward to continuing this productive and effective relationship.

Sincerely,

Van Zeck

Van Zeck
Commissioner

www.publicdebt.treas.gov

GAO Contact and Staff Acknowledgments

GAO Contact

Louise DiBenedetto, (202) 512-6921

Acknowledgments

In addition to the individual named above, Paul F. Foderaro, Dawn B. Simpson, Dean D. Carpenter, Polly Y. Cheung, Chau L. Dinh, Gloria Medina, and Jonathan A. Toy made key contributions to this report.

GAO's Mission

The General Accounting Office, the investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO E-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to daily e-mail alert for newly released products" under the GAO Reports heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
P.O. Box 37050
Washington, D.C. 20013

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

Visit GAO's Document Distribution Center

GAO Building
Room 1100, 700 4th Street, NW (corner of 4th and G Streets, NW)
Washington, D.C. 20013

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm,
E-mail: fraudnet@gao.gov, or
1-800-424-5454 or (202) 512-7470 (automated answering system).

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G. Street NW, Room 7149,
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Official Business
Penalty for Private Use $300

Address Correction Requested

Presorted Standard
Postage & Fees Paid
GAO
Permit No. GI00